

KEY ECONOMIC INDICATORS

UPDATE



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*Economic Data Pertaining to
the U.S. and Michigan Economies
for Members of the Michigan Legislature*

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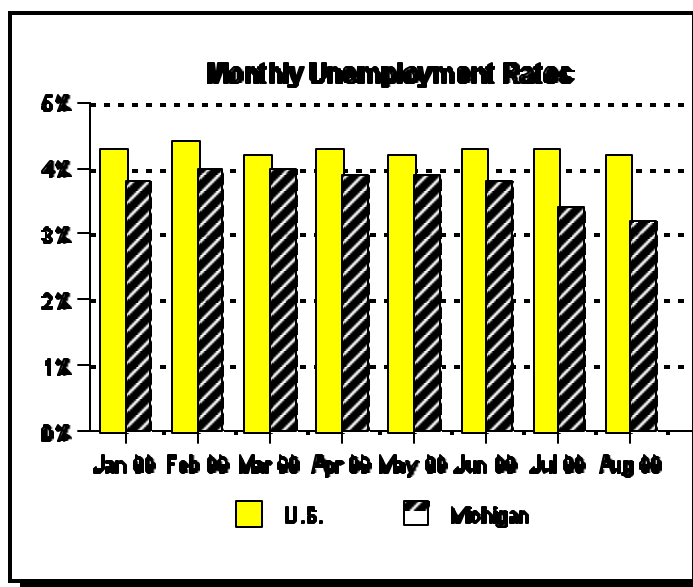
Employment

Trends in the Labor Market:¹ Michigan's seasonally adjusted (SA) unemployment rate dropped from 3.4% in July to 3.2% in August, appreciably below the 3.8% rate posted one year ago. The decrease in August's unemployment rate came despite the fact that both total employment and the labor force decreased.² Overall, the labor force fell by 22,000 workers between July and August, bringing the total to 5.07 million workers.

! Since March 1995, the unemployment rate in Michigan has remained below the U.S. level. That trend continues even though the unemployment rate for the country as a whole dropped slightly from 4.3% in July to 4.2% in August.

! Total employment in Michigan stands at just under 4.91 million, after a decrease of 11,000 workers between July and August. In spite of August's decline, however, total employment has grown by 70,000 workers over the past twelve months.

! Following a drop of 78,000 workers during the month, total unadjusted wage and salary employment in Michigan was approximately 4.5 million at the end of July. Almost three-fourths of this drop can be traced to the local education sector of government employment as schools pared down their staffs for the summer months. This trend continued into August as employment in local education dipped by an additional 4,000 workers. However, this decline was more than offset by an increase of about 24,000 workers in manufacturing employment, primarily in the durable goods sector. Overall, total wage and salary employment increased by slightly more than 16,000 workers in August.



¹ U.S. unemployment figures are supplied by the Bureau of Labor Statistics. Michigan employment figures are supplied by the Michigan Employment Service Agency. Data are seasonally adjusted at annual rates (SAAR) unless otherwise indicated.

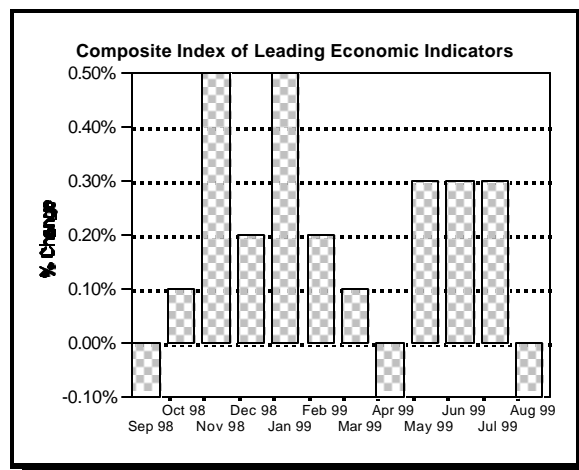
² Labor force is defined as the number of employed workers plus the number of unemployed workers.

The National Economy

Composite Index of Leading Economic Indicators:³ In predicting the future path of the economy, economists traditionally look at the *composite index of leading economic indicators*.

The value of the index is derived from several economic indicators and is calculated by The Conference Board, Inc., New York, N.Y.

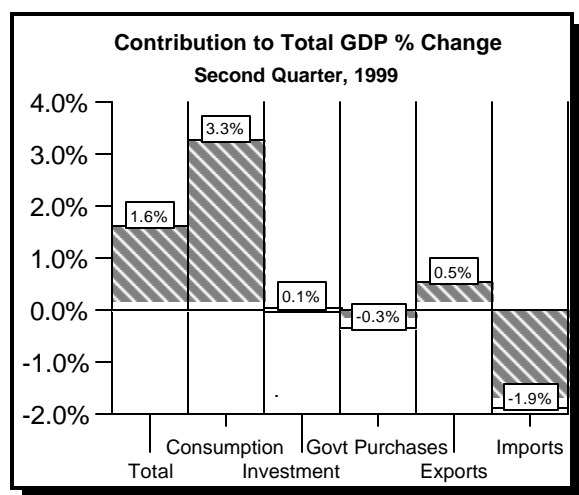
The composite index of leading economic indicators now stands at 107.9 after rising 0.3% in both June and July before dropping 0.1% in August. Only five of the ten component indicators that make up the index increased in August. The index of stock prices, which had been a positive contributor in both June and July, had a significant negative impact on the August index of leading indicators. For the past six months, eight of the ten components have shown overall increases. Even with the decrease in August, stable (albeit perhaps slower) economic growth should continue for the next several months.



Components of Gross Domestic Product:⁴ Gross domestic product (GDP) measures the total value of all final goods, services, and structures produced in the United States. Growth in GDP is the standard measure of the performance of the economy, and has four main components: personal consumption expenditures, gross private domestic investment, government purchases of goods and services, and net exports (exports less imports) of goods and services.

Real GDP (revised) grew at an annual rate (AR) of only 1.6% during the second quarter of 1999 after posting a 4.3% real growth rate during the first quarter. Consumer spending grew by 4.8% while export growth increased by 4.9%. In sharp contrast to its first quarter growth rate of 8.8%, private investment rose by a mere 0.3%.

! **Consumption expenditures** grew at a rate of 4.8% (SAAR) in the second quarter, fueled primarily by a 9.7% increase on durable goods spending and a 4.7% increase in service-oriented expenditures. Spending on nondurable goods increased by 2.8%.



! **Gross private investment expenditures** in the second quarter of 1999 rose by only 0.3% (SAAR), after growing by 8.5% in the first quarter. Although residential and nonresidential investment rose by 7.1% and 9.7%, respectively, these gains were almost completely offset by reductions in business inventories.

! **Total government expenditures** fell by 1.9% (SAAR) in the second quarter of 1999, led by a 3.6% decline in federal spending that was almost evenly divided between the defense and

³ Data on the leading index are seasonally adjusted and are published in *Business Cycle Indicators*, The Conference Board. The *composite index of leading indicators* is composed of several employment measures, measures on new orders and contracts for various durable goods, measures of consumer expectations, and measures of several monetary variables.

⁴ Data on macroeconomic variables are expressed in chained 1992 dollars and are available from the *Survey of Current Business*, U.S. Department of Commerce, Bureau of Economic Analysis.

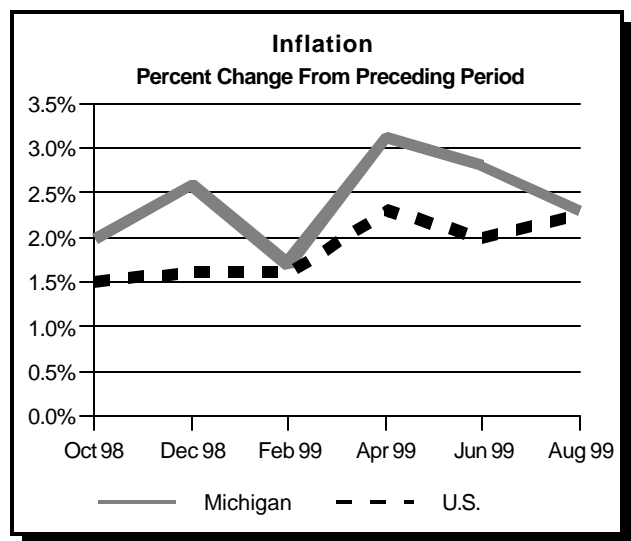
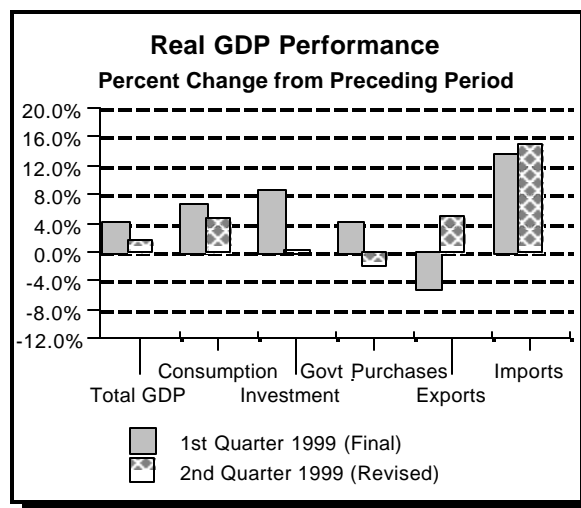
nondefense sectors. State and local government expenditures also declined during the second quarter of 1999.

- ! **Net exports** continued to fall during the second quarter of 1999 as exports rose by 4.9%, compared to a 15.1% increase in imports, worsening the overall trade deficit by about 11.3%. In monetary terms, the real trade balance (SAAR) through two quarters stands at -\$338.0 billion.

Inflation: Inflation estimates the decline in the purchasing power of a dollar over time and is measured as the rate of change of the **consumer price index (CPI)**. Michigan inflation is measured as the rate of change of the **Detroit-Ann Arbor CPI (D-CPI)**. Both the CPI and the D-CPI are calculated by the Bureau of Labor Statistics.

The inflation rate for the U.S. has remained low as the CPI rose slightly to 167.1 in August. On an annual basis, the inflation rate for 1999 stands at about 1.7% through August. For Michigan, D-CPI climbed from 163.8 in June to 164.2 in August. Measured on an annual basis, the Michigan inflation rate in 1999 is about 2.2%. When compared to August 1998, the inflation rates for both Michigan and the U.S. are equal to 2.3%.

- ! The **capacity utilization rate**⁵ continues to stay well below its 30-year average, and has remained almost constant at about 80.5% throughout 1999. Capacity utilization in August 1999 was approximately 1.5% lower than one year before, suggesting that inflation should continue to be modest.
- ! The **producer price index (PPI)**, an increase in which also could signal higher future inflation, has risen by only 1.1% (AR) thus far in 1999, and has increased at a modest 2.3% rate relative to August 1998.



- ! **Labor productivity** growth, an increase of which tends to offset inflation, increased at a 3.6% annual rate during the first quarter of 1999 before slowing to a 0.6% increase in the second quarter. These increases are both larger than their first and second quarter counterparts in 1998.
- ! **Employment cost indices** continue to increase faster than the rate of inflation. For the first half of 1999, total compensation costs have risen at an annual rate of 2.2% while wages and salaries have grown by 2.4%. Although increases in employers' costs can trigger inflation, the increases in labor productivity will likely minimize any inflationary effects.

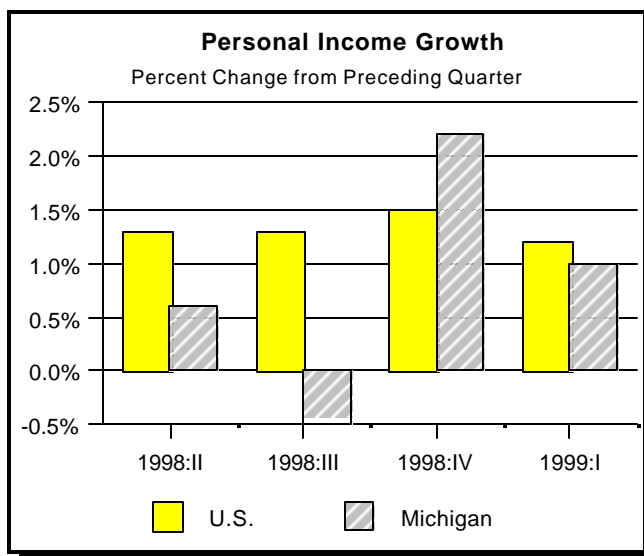
⁵ The capacity utilization rate measures the ratio of output capacity used to total production capacity available, and is calculated by the Federal Reserve Board. The producer price index measures the average price of finished goods. Labor productivity measures nonfarm business output per hour. Employment cost indices measure the change over time in labor costs. All three are calculated by the Bureau of Labor Statistics.

The Michigan Page

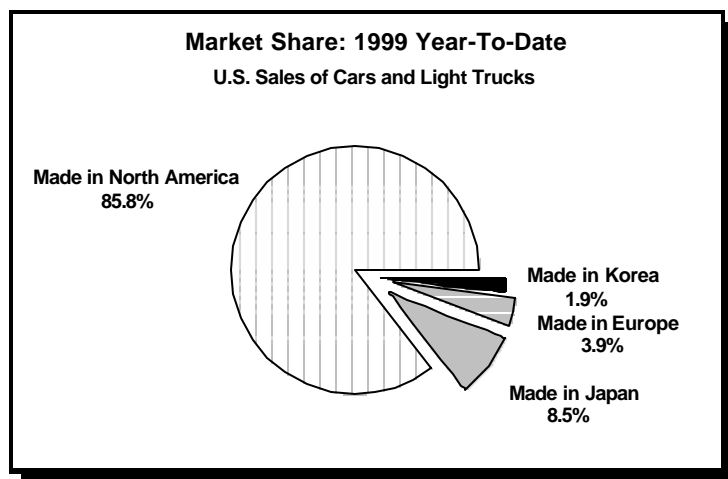
Personal Income:⁶ Growth in state tax revenue is largely determined by growth in state personal income. The most current estimates indicate Michigan's personal income grew at a slightly slower rate than the U.S. average in the first quarter of 1999.

! The U.S. Department of Commerce reported that **Michigan's personal income** (revised) grew to \$261.7 billion (SAAR) in the first quarter of 1999. This represents an increase of 1.0% from the fourth quarter of 1998 and a 3.4% increase over the past year. In comparison, U.S. personal income increased at 1.2% during the first quarter and by 5.5% since the first quarter of 1998.

! **Real disposable income**⁷ is an indicator of future expenditures in the durable goods sector. This sector, comprised of light vehicles and other goods, is an important contributor to the Michigan economy. Real disposable income (revised) for the U.S. increased at a rate of 2.6% (SAAR) in the second quarter of 1999 after growing at 3.5% during the first quarter.



Auto Industry:⁸ **U.S. sales of cars and light trucks** through August of 1999 totaled just over 9.8 million units, which represents a 10.2% rise over the first eight months of 1998. The number of cars and light trucks made in North America during this period jumped by 8.6% compared to last year, and



maintained a relatively constant market share when compared to foreign-produced vehicles. North American-made cars and light trucks posted sales increases of 6.4% and 10.8%, respectively. Korean automakers have seen sales in the U.S. jump by almost 69.0% compared to the first eight months of 1998. However, in spite of this increase, the total share attributable to Korean automakers represents less than 2.0% of the overall U.S. market.

From a production standpoint, year-to-date **U.S. car production** has increased by about 4.2% to almost 3.8 million vehicles. In addition, **U.S. truck production** has jumped by 18.8% to just over 5.0 million vehicles,

bringing total U.S. car and truck production through August 1999 to almost 8.8 million units. Relative to the first eight months of 1998, total U.S. car and truck production has risen by almost 12.1% in 1999.

⁶ Personal Income data are reported by the U.S. Department of Commerce, Bureau of Economic Analysis. Income figures are seasonally adjusted at annual rates (SAAR).

⁷ Disposable income figures are chain weighted and seasonally adjusted at annual rates (SAAR).

⁸ Automotive figures are published in *Automotive News*. The end of the Big Three has necessitated a change in the automotive summary figures. Four general categories consisting of "Made in North America," "Made in Japan," "Made in Europe," and "Made in Korea" will now be used in place of the previous aggregation categories.